

# FISCAL NOTE

**Bill #:** HB0148

**Title:** Tax cigarette papers as a tobacco product

**Primary Sponsor:** Smith, F

**Status:** As Introduced

Sponsor signature	Date	Chuck Swysgood, Budget Director	Date
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## Fiscal Summary

	<b><u>FY 2004 Difference</u></b>	<b><u>FY 2005 Difference</u></b>
<b>Expenditures:</b>		
General Fund	\$5,500	\$0
<b>Revenue:</b>		
General Fund	\$65,389	\$65,389
<b>Net Impact on General Fund Balance:</b>	\$59,889	\$65,389

- |   |  |
|---|--|
| <input type="checkbox"/> Significant Local Gov. Impact    | <input checked="" type="checkbox"/> Technical Concerns           |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts           |
| <input type="checkbox"/> Dedicated Revenue Form Attached  | <input checked="" type="checkbox"/> Needs to be included in HB 2 |

## Fiscal Analysis

### ASSUMPTIONS:

1. This bill provides for a new tax on the consumption of cigarette papers, that would apply to cigarette papers in the possession of wholesalers on July 1, 2003. The tax rate varies depending on the number of papers in a package. The tax on each package containing 32 or fewer cigarette papers is equal to the tax imposed in 16-11-111, MCA on a package of 20 cigarettes (under current law, this is the cigarette tax rate of \$0.18 per pack of 20 cigarettes). When a package contains more than 32 papers, the tax on each cigarette paper in excess of 32 papers in the package is the greater of \$0.01 or 1/20<sup>th</sup> of the tax on a package of 32 or fewer papers. Revenue received from this tax is deposited in the state general fund.
2. Under this proposal, tribal quota cigarette papers are not subject to the tax. Additionally, wholesalers making a sale of cigarette papers to a retailer within boundaries of a Montana Indian reservation may apply to the Department of Revenue for a refund or credit for taxes precollected on cigarette papers sold by the retailer to a member of the federally recognized Indian tribe or tribes on whose reservation the sale is made. The total amount of refunds or credits allowed by the Department of Revenue to all wholesalers may not exceed the amount equal to the tax due on the quota allocation. The distribution of tax-free cigarette papers to a tribal member must be implemented through a system of preapproved wholesaler shipments.
3. Under this proposal, a licensed wholesaler is entitled to a 5% discount on the face value of the insignias as defrayment of the costs of affixing the insignia and precollecting the tax on behalf of the state.

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4. Using data received by the Department of Revenue through a survey of wholesalers doing business in Montana, the new tax on consumption of cigarette papers is estimated to generate \$63,439 annually. This estimate is net of the tribal quotas, refunds and credits, and the 5% discount as discussed in the above assumptions. These estimates also assume that retailers will not stockpile cigarette papers prior to passage of the bill.
5. Under this proposal, a wholesaler, subjobber, retailer, or cigarette paper vendor is required to obtain a license from the Department of Revenue. A fee of \$50 is required for a wholesaler's license and a subjobber's license. A fee of \$5 is required for a retailer's license. Revenue received from these fees is estimated to be \$1,950 annually, and is deposited in the state general fund.
6. This bill would require the Department of Revenue to purchase new tax stamps. The smallest volume of tax stamps that the department can order is 2.5 million stamps for an approximate cost of \$5,500.
7. The department of revenue will not be requesting investigations from the department of justice.

FISCAL IMPACT:

	<u>FY 2004</u> <u>Difference</u>	<u>FY 2005</u> <u>Difference</u>
<u>Expenditures:</u>		
Operating Expenses	\$5,500	
 TOTAL	 \$5,500	
 <u>Revenues:</u>		
General Fund (01)	\$65,389	\$65,389
 <u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>		
General Fund (01)	\$59,889	\$65,389

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

The local governments may incur costs in implementing Section 9 (tax meter machine) of this bill.

TECHNICAL NOTES:

1. Section 1 (11) defines quota (for cigarette paper) as 150% of the national average individual consumption of cigarette papers multiplied by the enrolled tribal member population of the Indian reservation on which the cigarette paper sales are made. Similar language is used to establish the quota limits of the amount of cigarettes for each Montana tribe. Because the Department of Revenue is not aware of any national average individual consumption number, the bill sponsor may wish to consider using the cigarette tax quota amounts for cigarette papers.
2. Section 5 poses some administrative problems for the Department of Revenue and the cigarette paper wholesalers. HB148 provides for a tax rate on cigarette papers that is patterned after the current law tax on cigarettes. In the case of cigarettes, the tax is \$0.18 per pack of 20 cigarettes, and for packs containing other than twenty cigarettes a tax on each cigarette equal to 1/20<sup>th</sup> the tax on a package containing 20 cigarettes. In the case of cigarette papers, the tax on each package containing 32 or fewer cigarette papers is equal to the tax imposed on a pack of 20 cigarettes; and whenever a package of cigarette papers contains more than 32 papers, the tax on each cigarette paper in excess of 32 papers is 1 cent or 1/20<sup>th</sup> of the tax on a package of 32 or fewer papers, whichever is greater. The administrative problem occurs when applying stamp insignia to a booklet of cigarette papers. Unlike cigarettes, which almost always come in packs of 20, cigarette papers come in booklets containing many different volumes. For instance, one

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booklet might contain 32 papers; another booklet might contain 50 or 100 papers. This being the case, the Department of Revenue would need to provide different types of stamps with different values so that the cigarette paper wholesalers can attach the correct cigarette paper tax stamps to the booklets. An alternate approach could provide for incremental tax rates for various volumes of cigarette papers. For instance, one booklet of cigarette papers containing 1-32 cigarette papers would require one \$.18 tax stamp. A booklet that has 33-65 cigarette papers would require two \$.18 tax stamps, and so on. In this way the Department, and the wholesalers, would only have to administer a single stamp, substantially lowering the printing costs. The correct number of tax stamps would be applied to each booklet of papers based upon the volume in the booklets.

3. Section 9 describes a tax meter machine that adheres the tax stamps to the packages. The Department is not aware of any such machine for cigarette papers.